

File No.: PC89-0421D

Date: November 4, 2021
Filing Due Date: October 31, 2021
Review Deadline: November 26, 2021¹
Date Filed: October 12, 2021

Name of Utility: Inside Passage Electric Cooperative, Inc. Cert. No. 240

☒ Annual Update
☐ Fuel Cost Update
☒ Rate Change
☐ Other _____

☐ COPA Review
☐ Non-Fuel Cost Change
☐ kWh Sales Change

STAFF RECOMMENDATIONS: Approval of updated Permanent PCE amount (see attached memo)

PCE AMOUNT SUMMARY	Previously Approved	Staff Recommended
PCE AMOUNT (In Cents/kWh)	<u>Date Approved:</u> October 8, 2021	
All	40.30¢	40.03¢

Signed: Brenda Cox Brenda Cox Utility Financial Analyst

Commission decision re. this recommendation:

	Date (if different from 11/4/21)	I Concur	I Do Not Concur	I Will Write A Dissenting Statement *
Pickett	_____	<u>RMP</u>	_____	_____
Kurber	_____	<u>KKT</u>	_____	_____
Scott	_____	<u>AGS</u>	_____	_____
Sullivan	_____	<u>RMP</u> for DS	_____	_____
Wilson	_____	<u>JWW</u>	_____	_____

¹ Typically, there is no deadline for review of Power Cost Equalization (PCE) annual reports. However, a utility may request the review of an annual report (3 AAC 52.640(c)(2)) and the request triggers a 45-day review period (3 AAC 52.650(a)).

Memorandum

TO: Robert M. Pickett, Chairman DATE: November 4, 2021
Keith Kurber II
Antony G. Scott
Daniel A. Sullivan
Janis Wilson

FROM: Brenda Cox RE: Inside Passage Electric Cooperative, Inc.
Utility Financial Analyst PC89-0421D

Recommendations

1. Updated Power Cost Equalization amounts should be effective for billings rendered on or after November 5, 2021.
2. Approval should be: ☒ Permanent ☐ Interim
3. Standard reminder language for notice specifications, efficiency, and rate changes should be included in the By Direction Letter to the utility.

Filing

On October 12, 2021, Inside Passage Electric Cooperative, Inc. (IPEC) filed its Power Cost Equalization (PCE) annual report (annual report) for the test year ending June 30, 2021 and a rate increase. On October 22, 2021, IPEC filed a supplement which included a revised Exhibit 1² that Staff used for the review of the annual report. On October 25, 2021, IPEC filed an additional supplement.³ Staff used the revised Exhibit 1 in its review. Staff's contact for this filing was Mr. Paul Jones, Attorney for IPEC.⁴

IPEC continued to file some of the same Schedules it filed when it was regulated and filed its Simplified Rate Filing (SRF).⁵

- Schedule 1 – Calculation of Proposed Rates 8
- Schedule 2 – PCE calculation based on Updated Rates and Non-Fuel Costs
- Schedule 3 – RCA Form 201
- Schedule 4 – Statement of Operations
- Schedule 5 – Calculation of PCE Non-Fuel Costs

² See Supplement filed October 22, 2021.

³ See Supplement filed October 25, 2021.

⁴ Paul Jones is with Kemppe, Huffman and Ellis, P.C.

⁵ See U-18-013(4), *Order Informing Utility of Continuing Filing Obligations, Re-designating Commission Panel and Closing Docket*, dated September 18, 2018.

- Schedule 5.1 – Waste Heat and Pole Attachment Revenue
- Schedule 6 – PCE Expense Adjustments
- Schedule 6.1 – Schedule of Long-Term Debt & Interest Adjustment
- Schedule 6.2 – Administrative and General Expense Adjustment
- Schedule 6.3 – Wage and Benefits Annualization Adjustment
- Schedule 6.3.1 – Employee Insurance Detail
- Schedule 6.4 – Property Insurance Adjustment
- Schedule 6.5 – New Debt Adjustment

IPEC also filed Exhibit 2 its Rural Utilities Service (RUS) form for the period ending December 2020, and June 2021, Exhibit 3 its audited financial statements for December 31, 2020 and 2019, Exhibit 4 its Depreciation Schedule, Exhibit 5 its Electric Utility PCE Data Form, and Exhibit 6 its General Ledger.

Summary

After Staff's proposed adjustments, IPEC's total costs per kiloWatt-hour are 62.17¢/kWh. IPEC's reported fuel efficiency is 13.15 kWh/gallon and reported line loss is 8.23%. Staff's detailed analysis of this filing follows:

Analysis

Staff used the following in its analysis: IPEC's Revised Exhibit 1,⁶ which included the Schedules listed above, Exhibit 2, Exhibit 4, Exhibit 5, and Exhibit 6. Total reported non-fuel costs were \$5,059,411.⁷

Columns 1 and 2 of Schedule 3 shows the two most recent twelve month-periods (the test years ended June 30, 2020, and 2021).⁸ IPEC also filed the RUS Form 7, the schedule necessary to reconcile the twelve-month reporting period shown on Schedule 3.⁹ Column 3 shows the variance between the two twelve-month periods; Column 4 shows the percentage change; Column 5 shows IPEC's requested normalizing adjustments; and Column 5 shows IPEC's normalized operating expenses.

Pro Forma Adjustments

IPEC's proposed normalizing adjustments are shown at Schedule 3,

⁶ See Supplement filed October 22, 2021.

⁷ See Schedule 3, \$5,059,412 was reported. Staff calculated the sum of lines 11 through 18, the Adjusted Current 12-Months to be \$5,059,411. The difference is due to rounding in Excel.

⁸ Schedule 3 is found in Exhibit 1.

⁹ See Exhibit 2, RUS Form 7.

Column 5. Summary and narrative explanations are found at Schedules 6 through 6.5. IPEC proposes seven test period adjustments which are summarized as follows:¹⁰

Power Production Expense (Line 2): Increase of \$11,877 to normalize a 2.5% across-the-board wage increase effective January 2021 and related Medicare taxes, Social Security taxes, retirement contribution, and insurance expense (see Schedule 6.3).

Distribution-Operations Expense (Line 5): Increase of \$2,637 to normalize a 2.5% across-the-board wage increase effective January 2021 and related Medicare taxes, Social Security taxes, retirement contribution, and insurance expense (see Schedule 6.3).

Distribution-Maintenance Expense (Line 6): Increase of \$712 to normalize a 2.5% across-the-board wage increase effective January 2021 and related Medicare taxes, Social Security taxes, retirement contribution, and insurance expense (see Schedule 6.3).

Consumer Accounts Expense (Line 7): Increase of \$2,592 to normalize a 2.5% across-the-board wage increase effective January 2021 and related Medicare taxes, Social Security taxes, retirement contribution, and insurance expense (see Schedule 6.3).

Customer Service Expense (Line 8): Increase of \$421 to normalize a 2.5% across-the-board wage increase effective January 2021 and related Medicare taxes, Social Security taxes, retirement contribution, and insurance expense (see Schedule 6.3).

Admin. & General Expense (Line 10): Increase of \$32,607, which consists of the following: removal of lobbying expenses (\$26,052); removal of donations, gifts, and community involvement expenses (\$1,906); removal of

¹⁰ AS 42.45.110(a) specifies the costs used to calculate the amount of PCE for all electric utilities eligible under AS 42.45.100- 42.45.150 include all allowable costs, except return on equity, used by the Regulatory Commission of Alaska to determine the revenue requirement for electric utilities subject to rate regulation under AS 42.005.

Alaska Air miles program expense (\$15,076); and removal of board and management expenses (\$185). The adjustment also includes an increase of \$11,519 to normalize a 2.5% across-the-board wage increase effective January 2021 and related Medicare taxes, Social Security taxes, retirement contribution, and health insurance expense. Also included is an increase of \$64,307 due to an increase in IPEC's insurance expense that will impact IPEC during the period rates will be in effect. This increase is primarily due to the addition of the Gunnik Creek Hydroelectric project (Gunnik Creek) in Kake. IPEC included an Order to Bind Coverage from ARECA Insurance Exchange showing the increase.¹¹ In PC89-0421, the last annual report reviewed, Mr. Jones advised Gunnik Creek went into service October 2020.¹² (see Schedule 6.2, Schedule 6.3, and Schedule 6.4).

Interest Long Term Debt (Line 15): Increase of \$111,561, which consists of \$1,796 to adjust for the long-term debt and interest expense based on the test year ending June 30, 2021 and \$109,765 which is an increase in interest expense that will be incurred during the period the rates will be in effect. It is due to IPEC receiving loan proceeds from the National Utilities Cooperative Finance Corporation in the amount of \$3,200,000. The loan is for costs associated with the construction of the Gunnuk Creek Hydroelectric Project that were not covered by grant funds, replacement of obsolete electric meters, and electrical and siding renovations to IPEC's Juneau headquarters building. (Schedule 6, Schedule 6.1, and Schedule 6.5).

Staff Recommended Adjustments

Staff noted on Exhibit 6, IPEC's General Ledger, on page 3 of 7, account 909 - Annual Meeting Expense in the amount of \$21,595 and asked Mr. Jones to provide a detailed General Ledger (GL Schedule) for account 909. Mr. Jones provided the GL schedule which shows purchases made at Costco in the amount of \$200 for IPEC's annual meeting door prize and at Safeway for a gift card/door prize in the amount of

¹¹ In Exhibit 1, page 13 of 17.

¹² See Staff Memo for PC89-0421, page 5 of 7.

\$106.¹³ Additionally, Staff noted five entries of \$50 each for a total of \$250 which reference names of people and asked Mr. Jones what these costs were for and he advised the charges were for annual meeting door prizes that were given as \$50 credits to customer bills.¹⁴ Even though these costs may help with attendance of the annual meeting, they are not used and useful in the production of power. Staff recommends disallowing these costs and decreasing Admin & General Expense in the amount of \$556 (\$200 + \$106 + \$250).

After reviewing IPEC's pro forma adjustments, found at Schedule 6.2, Staff noted the adjustment to Admin & General Expense, included a \$1,350 decrease related to donations. This left a balance of \$1,350 under Other deductions on Schedule 3.¹⁵ Other deductions is the account donations are reported in. Staff recommends increasing Admin & General Accounts by \$1,350 and decreasing Other deductions by \$1,350. This adjustment has no effect on the total of the nonfuel costs.

Therefore, Staff recommends **Adjustment 1 (Appendix 2)** to increase Admin & General Expenses by \$794 (\$1,350 - \$556) and **Adjustment 2 (Appendix 2)** to decrease Other Expenses by \$1,350.

PCE Calculation

IPEC filed Schedule 5, which shows the adjustments IPEC made to the non-fuel costs to determine non-fuel costs eligible in the calculation of the PCE amount. IPEC reduced the Total Adjusted Cost of Electric Service of \$5,059,411 by the Fuel Expense in the amount of \$925,174 and Cost of Purchased Power in the amount of \$293,278.¹⁶ IPEC also reduced for costs equal to Waste Heat Revenue in the amount of \$32,890, and costs equal to Pole Attachment Revenue in the amount of \$12,936. After these adjustments non-fuel costs total \$3,795,133.¹⁷ After Staff's recommended adjustment, referenced above, the total non-fuel costs used in the PCE calculation are \$3,794,577.¹⁸

¹³ See Supplement filed October 22, 2021.

¹⁴ See Supplement filed October 25, 2021.

¹⁵ See Schedule 3, line 18.

¹⁶ Staff noted these costs were included in amounts reported on Schedule 3 and are recovered in IPECs COPA.

¹⁷ Staff notes these are the same adjustments IPEC used in its SRF filings in the past (TA212-240) and its last PCE annual update filing (PC89-0421).

¹⁸ \$3,795,133 - \$556 = \$3,794,577.

Rates

IPEC filed Schedule 1 showing its new rates, which are as follows:

Rate Class	Old Amount	New Amount
Residential - Energy	\$0.4456	\$0.4524
Small Commercial	\$0.4782	\$0.4855
Large Power - Energy	\$0.3918	\$0.3978
Large Power - Demand	\$15.03	\$15.26
Large Power Interruptible		
Energy-First 60,000 kWh	\$0.1978	\$0.2008
Next 240,000 kWh	\$0.1673	\$0.1699
Over 300,000 kWh	\$0.1570	\$0.1594
Standby	\$47.97	\$48.70

Fuel Costs

IPEC filed its most recent PCE fuel report on September 13, 2021, for the 4th quarter of 2021. IPEC uses the COPA methodology that it used when it was regulated. A weighted average price of \$2.7127/gallon and a COPA of \$0.2236/kWh were calculated in PC89-0421C,¹⁹ which is included in **Appendix 2**.

¹⁹ Approved in Letter Order L2100334, dated October 8, 2021.

Inside Passage Electric Cooperative, Inc.

POWER COST EQUALIZATION CALCULATION

FOR TEST PERIOD ENDING June 30, 2021

Annual Update and Rate Change

	PC89-0421C	PC89-0421D
	Prior Commission Approval	Utility Request Staff Recommended
A. Total kWh Generated	9,539,639	9,454,499
B. Total kWh Sold (Appendix 2)	9,260,948	9,531,667
C. Total Non-Fuel Costs (Appendix 2)	3,712,636	3,795,133
D. Non-Fuel Cost/kWh (C/B)	\$0.4009	\$0.3982
E. Total Fuel and Purchased Power Costs (Appendix 2)	0.2236	0.2236
F. Eligible Costs/kWh (D+E)	\$0.6245	\$0.6218
G. Eligible Cost/kWh (F) Less 20.03 cents/kWh	\$0.4242	\$0.4215
H. Lesser of (H) or 79.97 cents/kWh	\$0.4242	\$0.4215
I. Average Class Rates (Appendix 3)		
Residential	\$0.4909	\$0.4977
Small Community Facilities - All kWh	\$0.5355	\$0.5428
Large Community Facilities - All kWh	\$0.5251	\$0.5311
J. Lesser of: (H) x 95% or (I)		
Residential	\$0.4030	\$0.4004
Small Community Facilities - All kWh	\$0.4030	\$0.4004
Large Community Facilities - All kWh	\$0.4030	\$0.4004
K. Funding Level in Effect	100%	100%
Residential	\$0.4030	\$0.4004
Small Community Facilities - All kWh	\$0.4030	\$0.4004
Large Community Facilities - All kWh	\$0.4030	\$0.4003

PC89-0421D
Appendix 1

Inside Passage Electric Cooperative, Inc.

SCHEDULE OF ELIGIBLE POWER COSTS, SALES, AND EFFICIENCY
FOR TEST PERIOD ENDING June 30, 2021
Annual Update and Rate Change

		PC89-0421C		PC89-0421D	
		Prior Commission Approval	Per Utility	Staff Adjustments	Staff Recommended
Non-Fuel Costs:					
A.	Operating Expenses (Acct 500-598)	2,889,024	2,845,172	0	2,845,172
B.	General & Administrative (Acct. 901-935)	1,400,191	1,372,052	794	1,372,846
C.	Depreciation	467,363	536,989	0	536,989
D.	Interest Expense	189,472	299,236	0	299,236
E.	Other Expense: Tax/Donations	4,630	5,962	(1,350)	4,612
F.	Other (Describe)				
	Fuel Expense	(990,509)	(925,174)	0	(925,174)
	Cost of Purchased Power	(199,798)	(293,278)	0	(293,278)
	Waste Heat Revenue	(34,801)	(32,890)	0	(32,890)
	Pole Attachment Revenue	(12,936)	(12,936)	0	(12,936)
G.	Total Non-Fuel Costs	\$3,712,636	\$3,795,133	(\$556)	\$3,794,577
H.	Total kWh Sold in Test Year July 2020 through June 2021	9,260,948	9,531,667		9,531,667
I.	Non-Fuel Cost/kWh (G/H)	\$0.4009	\$0.3982		\$0.3981
COPA Fuel Costs:					
J.	Gallons Consumed (estimated) (Oct. - Dec. 2021)	\$161,423	161,423		161,423
K.	Price of Fuel (per gal) (Oct. - Dec. 2021)	\$2.7127	\$2.7127		\$2.7127
L.	Purchased Power (Oct. - Dec. 2021)	\$121,352	\$121,352		\$121,352
M.	Balancing Account estimated to 8/31/21	(\$16,914)	(\$16,914)		(\$16,914)
N.	Total Cost of Fuel (J*K)+L+M	542,330	542,330		542,330
O.	Estimated kWh Sales in Oct. - Dec. 2021	2,425,915	2,425,915		2,425,915
P.	Fuel Costs/kWh - COPA (N/O)	\$0.2236	\$0.2236		\$0.2236
Q.	kWh Sales	9,260,948	9,531,667		9,531,667
R.	kWh Generated with Diesel	7,022,419	6,742,606		6,742,606
	kWh Generated with Hydro	2,517,220	2,711,893		2,711,893
	Total kWh Generated	9,539,639	9,454,499		9,454,499
S.	Purchased Power	881,938	1,263,120		1,263,120
T.	Fuel Consumption	469,571	512,657		512,657
U.	kWh Station Service	285,307	304,327		304,327
		<u>Standard</u>			
V.	Efficiency ≥ 12.5	14.95	13.15		13.15
		(kWhs generated per gallons consumed)			
W.	Line Loss ≤ 12%	8.40%	8.23%		8.23%
		(kWh generated or purchased -(kWh sales + Station Service))/kWh generated or purchased			

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Appendix 2

Inside Passage Electric Cooperative, Inc.

CALCULATION OF AVERAGE CLASS RATE PER kWh

Surcharge: 0.2236

Rate Schedule: **Residential**

Customer Charge (CC): 11

(1) Block (by kWh)	(2) Rate (\$/kWh)	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)	(5) Total \$ (1x4)+CC	(6) Avg. (\$/kWh) (5)/(1)	(7) Avg. Rate (\$/kWh) - \$ 0.2003
0 to 500	0.4524	0.2236	0.6760	349.0000	0.6980	0.4977
to						
to						
to						
Max 500			Total			

Rate Schedule:

(1) Block (by kWh)	(2) Rate (\$/kWh)	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)	(5) Total \$ (1x4)	(6) Avg. (\$/kWh) (5)/(1)	(7) Avg. Rate (\$/kWh) - \$ 0.2003
0 to 500						
to						
to						
to						
Max 500			Total			

Rate Schedule:

(1) Block (by kWh)	(2) Rate (\$/kWh)	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)	(5) Total \$ (1x4)	(6) Avg. (\$/kWh) (5)/(1)	(7) Avg. Rate (\$/kWh) - \$ 0.2003
0 to 500						
to						
to						
to						
Max 500			Total			

Inside Passage Electric Cooperative, Inc.

CALCULATION OF COMMUNITY FACILITY AVERAGE RATE PER kWh

Rate Schedule: **Small Comm. Fac.** Customer Charge (CC): 17

(1) Block	(2) Rate/ kWh	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)+(CC/500)	(6) Average Rate(\$/kWh)- \$ 0.2003
0 to ∞	0.4855	0.2236	0.7431	0.5428

Rate Schedule: **Large Comm. Fac.** Customer Charge: 55

(1) Block	(2) Rate/ kWh	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)+(CC/500)	(6) Average Rate(\$/kWh)- \$ 0.2003
0 to ∞	0.3978	0.2236	0.7314	0.5311

Rate Schedule:

(1) Block	(2) Rate/ kWh	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)	(6) Average Rate(\$/kWh)- \$ 0.2003
0 to				
to				
to				

PCE Annual Report

Utility Name:

INSIDE PASSAGE ELECTRIC COOPERATIVE, INC.

Period Ending:

06/30/21

PC89-0421D

LINE	ACCOUNT NUMBER(S)	ACCOUNT TITLE	ACTUAL CURRENT 12-MONTH	Normalizing Adjustments	Per Utility	Staff Adjustments	Staff Recommended
			06/30/21 (2)	(5)	(2+5)		
2	500 - 554	Power Production	2,284,908	11,877	2,296,785		2,296,785
3	555 - 557	Purchased Power	293,278		293,278		293,278
4	560 - 573	Transmission	0		0		0
5	580 - 589	Distrib-Operations	166,978	2,637	169,615		169,615
6	590 - 598	-Maintenance	84,782	712	85,494		85,494
7	901 - 905	Consumer Accts.	193,109	2,592	195,701	Ad. #1	195,701
8	907 - 910	Customer Service	21,595	421	22,016	(556)	21,460
9	911 - 916	Sales	27,834		27,834	Adj. #1	27,834
10	920 - 935	Admin & General	1,093,894	32,607	1,126,501	1,350	1,127,851
11	Total O&M	(2 THROUGH 10)	4,166,378	50,846	4,217,224	794	4,218,018
12	403 - 407	Depreciation & Amortization	536,989		536,989		536,989
13	408.1	Property Tax	4,630		4,630		4,630
14	408.2 - 408.4	Other Tax	(18)		(18)		(18)
15	427	Interest L-T Debt	187,675	111,561	299,236		299,236
16	427.3	IDC	0		0		0
17	430	Other Interest	0		0	Adj. #2	0
18	426	Other Deductions-donations	1,350	0	1,350	(1,350)	0
19			4,897,004	162,407	5,059,411		5,058,855
20	Less Fuel Expense (Schedule 5)				(925,174)		(925,174)
21	Less Cost of Purchased Power (Schedule 5)				(293,278)		(293,278)
22	Less Costs Equal to Waste Heat Revenue (Schedule 5)				(32,890)		(32,890)
23	Less Costs Equal to Pole Attachment Revenue (Schedule 5)				(12,936)		(12,936)
24	Total Non-Fuel Costs				3,795,133	(556)	3,794,577

Signature: 

Email: bob.pickett@alaska.gov

Signature: 
Keith Kurber II (Nov 4, 2021 08:09 AKDT)

Email: keith.kurber@alaska.gov

Signature: 

Email: antony.scott@alaska.gov

Signature: 
Janis W. Wilson (Nov 4, 2021 14:28 AKDT)

Email: janis.wilson@alaska.gov

PC89-0421D
Schedule BKC-1